



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
+ Positive = Neutral - Negative			

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

ESG Disclosure Score

NEW

ESG RISK RATING

Updated Jun 08, 2023

31.21

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 88,449 cr
52-week high/low:	Rs. 127/74
NSE volume: (No of shares)	140 lakh
BSE code:	500049
NSE code:	BEL
Free float: (No of shares)	357.4 cr

Shareholding (%)

Promoters	51.1
FII	16.4
DII	25.5
Others	6.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.9	33.0	22.5	56.1
Relative to Sensex	9.2	23.5	18.5	36.7

Sharekhan Research, Bloomberg

Bharat Electronics Ltd

Strong Q1 order intake boosts confidence

Capital Goods

Sharekhan code: BEL

Reco/View: Buy



Upgrade



Maintain

CMP: Rs. 121

Price Target: Rs. 142



Downgrade

Summary

- BEL has achieved ~30% of its ~Rs. 20,000 crore annual order inflow guidance in Q1FY24, and the future order pipeline is quite robust. BEL may exceed the guidance if large orders of QRSAM or MRSAM come in.
- BEL would be spending Rs. 700-800 crore in strengthening its capabilities to efficiently execute its order backlog of Rs. 60,690 crore and bid for upcoming projects.
- The company has guided for revenue growth of ~17% in FY2024 and expects OPM to be 21-23% for FY24.
- BEL has a promising order inflow pipeline and a healthy cash balance of Rs. 8,000 crore. We build in Revenue/PAT CAGR of ~16% each over FY23-FY25E. BEL currently trades at ~22x FY25E EPS. We retain a Buy on BEL with a revised PT of Rs. 142.

BEL's order inflow during Q1FY24 has been robust so far, with Rs. 5,900 crore as compared to ~Rs. 850 crore of inflows in Q1FY23. This indicates strong probability of meeting the order inflow guidance of ~Rs.20,000 crore, which does not factor in many big-ticket programs like QRSAM and MRSAM projects which are in the pipeline and may be awarded in the current year or next year. Revenue growth is expected to be ~17% in FY2024, and the execution will come from the current order book, depending on the delivery timelines. Exports revenue in FY2023 came in at US\$ 48mn or Rs. 394 crore, and it aims to touch US\$ 90-100mn in exports in FY2024. Thus, BEL is well placed for growth based on its strong order backlog of ~Rs. 60,690 crore (~3.5x revenue) and promising order pipeline.

BEL achieves ~30% of annual order intake guidance in Q1FY24

BEL received order inflows of Rs. 5,900 crore in Q1FY24, which includes orders for an improved Akash Weapon System (AWS) with upgrades from Bharat Dynamics (BDL) for a value of Rs. 3,914 crore in Q1FY24. Other significant orders valued at Rs. 1,984 crore include orders for Shakti EW & Sanket MK III (Naval Systems), GBMES & GBVU Com Jammer systems, among others. Hence, BEL has achieved 30% of its total order inflow guidance in Q1FY24, which is significantly higher than the Rs. 850 crore order inflow in Q1FY23. Moreover, long-term orders for MRSAM and QRSAM, amongst others, could also provide a fillip to its order inflows. The company also has a Rs 4,500-crore order for electronic fuses from the army and a Rs 5,000-crore order of sensor equipment for shipyards in the pipeline.

Strengthening its manufacturing facilities

BEL will be spending Rs 600-800 crore in FY2023/FY2024 in capital expenditure this year. Currently, it has four factories under construction—a factory for advanced electro-optic systems in Machilipatnam, a plant for land-based EW systems in Ibrahimpatnam for around Rs. 300 crore, a defence system integration complex in Anantapur in Andhra Pradesh and a defence system explosive and fuse complex in Nagpur. It is also building an advanced night vision factory at Nimmalur, Andhra Pradesh, for ~ Rs. 340 crore, which is likely to be commissioned by the end 2023.

Other developments

The company will also supply equipment for ship-building programs like the Next-Generation Offshore Patrol Vessel (NGOPV), Next Generation Missile Vessels (NGMVs) and cadet training ships. The company expects total orders of around Rs. 5,000-Rs. 6,000 crore. The company expects an increase in non-defence revenues in FY24 following contribution from EVMs and VVPAT. Moreover, BEL is expediting efforts to diversify its revenues in metro, railway and artificial intelligence (AI) areas. BEL and telecom gear maker HFCL have signed a two-year non-exclusive agreement to leverage each other's expertise to indigenously develop and deploy solutions for the defence, telecom, and railway sectors.

Revision in estimates – We have maintained our estimates for FY2024-FY2025E.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 142: BEL has bagged Rs. 5,900 crore worth of orders in Q1FY24, which indicates the company is well on track to achieve its order guidance of Rs. 20,000 crore in FY24. Further, the company could exceed its guidance if large orders like QRSAM or MRSAM are awarded in FY24. Further, India is strengthening its defence ties with developed countries like the USA, which also presents export and several partnership opportunities to BEL. BEL has strong manufacturing and R&D base, a robust order book, healthy order prospects, diversifying revenue stream, and a healthy cash balance of Rs. 8,000 crore with improving return ratios. We retain a Buy on the stock with a revised price target (PT) of Rs. 142, valuing it on FY2025E EPS.

Key Risks

- Delayed order execution and slower pace of fresh orders can affect revenue growth.
- Higher raw-material prices and shortage of key components could affect margins going forward.

Valuation (Consolidated)

Particulars	FY22	FY23	FY24E	FY25E
Total Revenue	15,368	17,734	20,717	23,660
OPM (%)	21.7	23.0	23.1	23.6
PAT	2,399	2,984	3,391	4,006
YoY growth (%)	14.3	24.4	13.6	18.1
EPS (Rs.)	3.3	4.1	4.6	5.5
P/E (x)	36.9	29.6	26.1	22.1
EV/EBITDA (x)	27.7	22.6	19.6	16.7
RoCE (%)	17.8	20.3	20.4	20.8
RoE (%)	20.6	22.7	22.6	23.0

Source: Company; Sharekhan estimates

Orders of Rs. 5,900 crore in Q1 set the tone for strong order intake in FY24

BEL received an order for 2 regiments of improved Akash Weapon System (AWS) with upgrades from Bharat Dynamics (BDL) for a value of Rs. 3,914 crore in Q1FY24. Akash is an all-weather, point/area air-defence weapon system intended to defend vulnerable points/areas against threats from low, medium and high altitudes. The system uses high-mobility vehicles for mobile applications. Other significant orders valued at Rs. 1,984 crore include orders for Shakti EW & Sanket MK III (Naval Systems), GBMES & GBVU Com Jammer systems, MKBT systems, IFF-MKXII crypto modules and up gradation of SDP and display of Rohini Radar and training system for CMS P15B & CAMC of CMS for P28. Hence, BEL has achieved 30% of its total order inflow guidance in Q1FY24, which is significantly higher as compared to the corresponding quarter of last year wherein order inflow for the company was just Rs. 850 crore. Moreover, long-term orders for MRSAM and QRSAM, amongst others, could also provide a fillip to its order inflows. The company also has a Rs 4,500-crore order for electronic fuses from the army and a Rs 5,000-crore order of sensor equipment for shipyards in the pipeline. Also, orders from Tejas Mk1A and Mk2 and next-generation corvettes are likely to be awarded going forward. BEL has acquired export orders worth US\$ 75.66 mn in FY23. Hence, the company has a strong order pipeline of Rs. 60,000-70,000 crore.

Company to spend on building capabilities

BEL is investing in several capabilities to ensure the timely and efficient execution of existing and future orders. BEL will be spending Rs 600-800 crore in FY2023/FY2024 in capital expenditure this year to build new factories and enhance current production and manufacturing equipment. Currently, it has four factories under construction—a factory for advanced electro-optic systems in Machilipatnam, a plant for land-based EW systems in Ibrahimpatnam for around Rs. 300 crore, a defence system integration complex in Anantapur in Andhra Pradesh. Apart from regular capex, the company is developing a defence system explosive and fuse complex in Nagpur. It is building an arms & ammunition facility for Rs. 200 crore in Hyderabad. It is also building an advanced night vision factory at Nimmaluru, Andhra Pradesh for ~ Rs. 340 crore, likely to be commissioned by end 2023.

Other developments

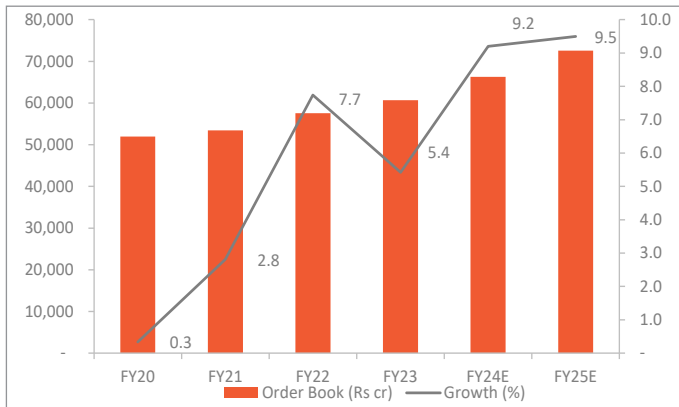
The company will also supply equipment for ship-building programs like the Next-Generation Offshore Patrol Vessel (NGOPV), Next Generation Missile Vessels (NGMVs) and cadet training ships. The company expects a total order value of around Rs. 5,000-Rs. 6,000 crore from these orders. BEL and telecom gear maker HFCL have signed a two-year non-exclusive agreement to leverage each other's expertise to indigenously develop and deploy solutions for the defence, telecom, and railway sectors. The company expects an increase in non-defence revenues in FY24 following contributions from EVMs and VVPAT. Moreover, BEL is expediting efforts to diversify its revenues in areas like metro, railway, and artificial intelligence (AI).

Margins and WCC to be stable

BEL has guided for gross margin at 40-42% levels and EBITDA margin could be between 21-23% for FY24. BEL has been focused on cost-control measures and extensive indigenisation efforts to improve profitability, which shall lead to the company achieving its margin guidance as well. Cash flow from operations has grown significantly in the last five years, and we expect healthy growth in FY24 as well. Further, despite significant topline growth, its inventory and receivables days are also expected to be stable.

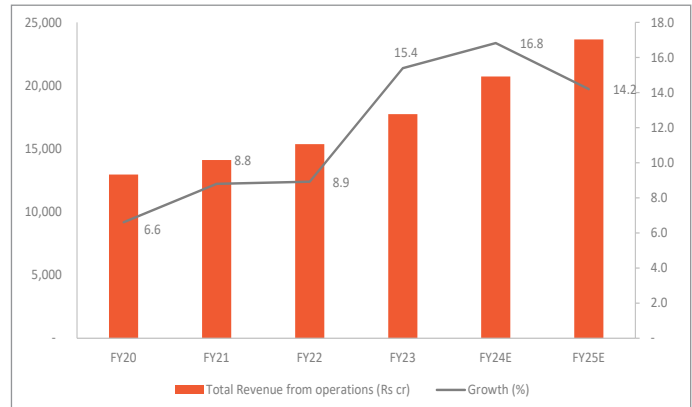
Financials in charts

Order book growth trend



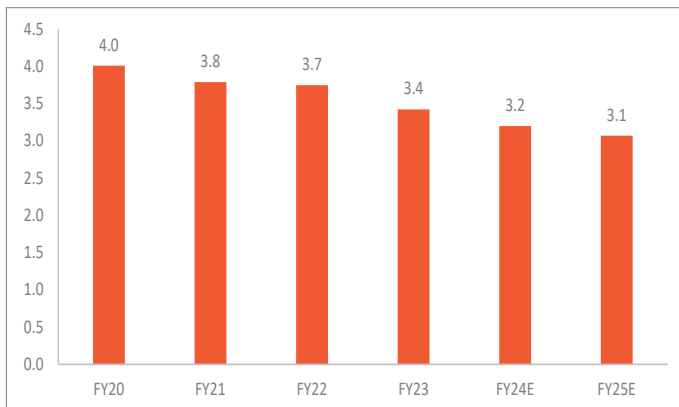
Source: Company, Sharekhan Research

Revenue growth trend



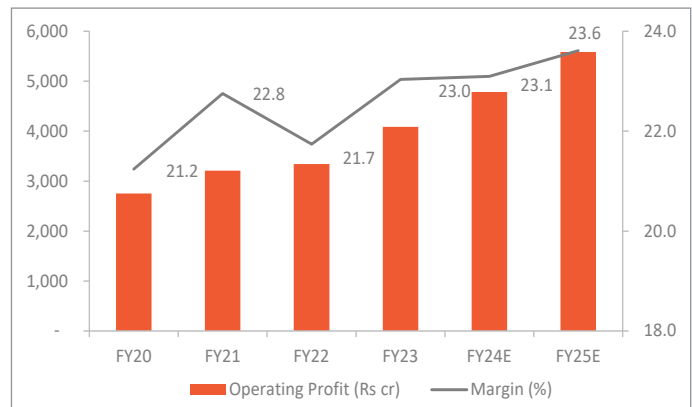
Source: Company, Sharekhan Research

Order Book to Revenue ratio (x)



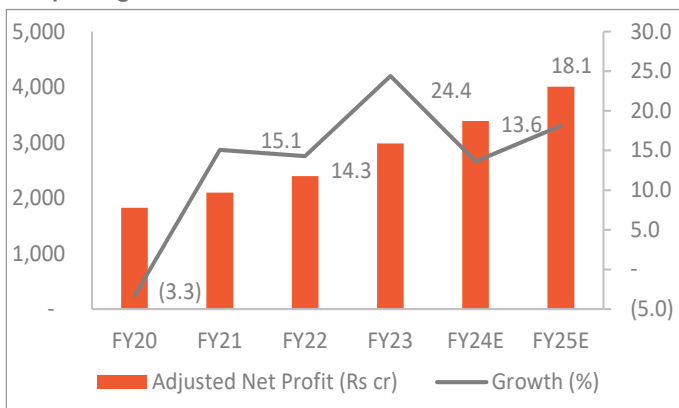
Source: Company, Sharekhan Research

Operating profit and margin trend



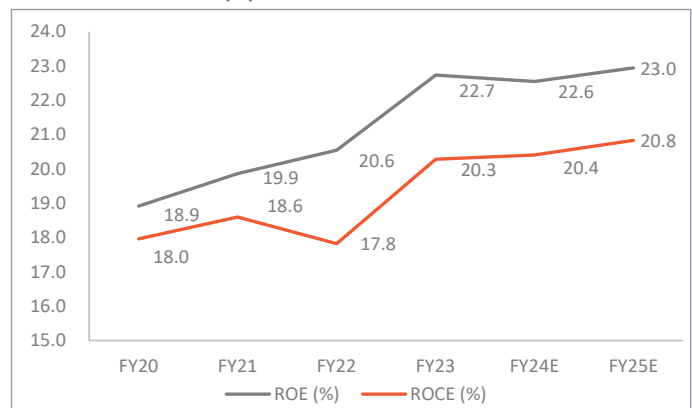
Source: Company, Sharekhan Research

Net profit growth trend



Source: Company, Sharekhan Research

Return ratios trend (%)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – AatmaNirbhar Bharat initiative to boost defence manufacturing in India

The government is emphasising on creating an environment to boost the AatmaNirbhar Bharat programme in the defence sector and create a level-playing field for private players, including MSMEs. Completion of defence projects takes longer than envisaged earlier and, hence, the government is planning to incorporate cost-escalation clauses and provide incentives to vendors based on enhanced productivity and performance. Further, hike in foreign direct investment (FDI) to 74% through the automatic route would boost investments in the sector. This is likely to boost investments in the space, as foreign players in the defence sector would look at setting up joint ventures to establish defence manufacturing bases in India, considering the large opportunity with the opening up of the defence sector. The government has also established defence corridors in Tamil Nadu and Uttar Pradesh, which have helped reduce the import dependency.

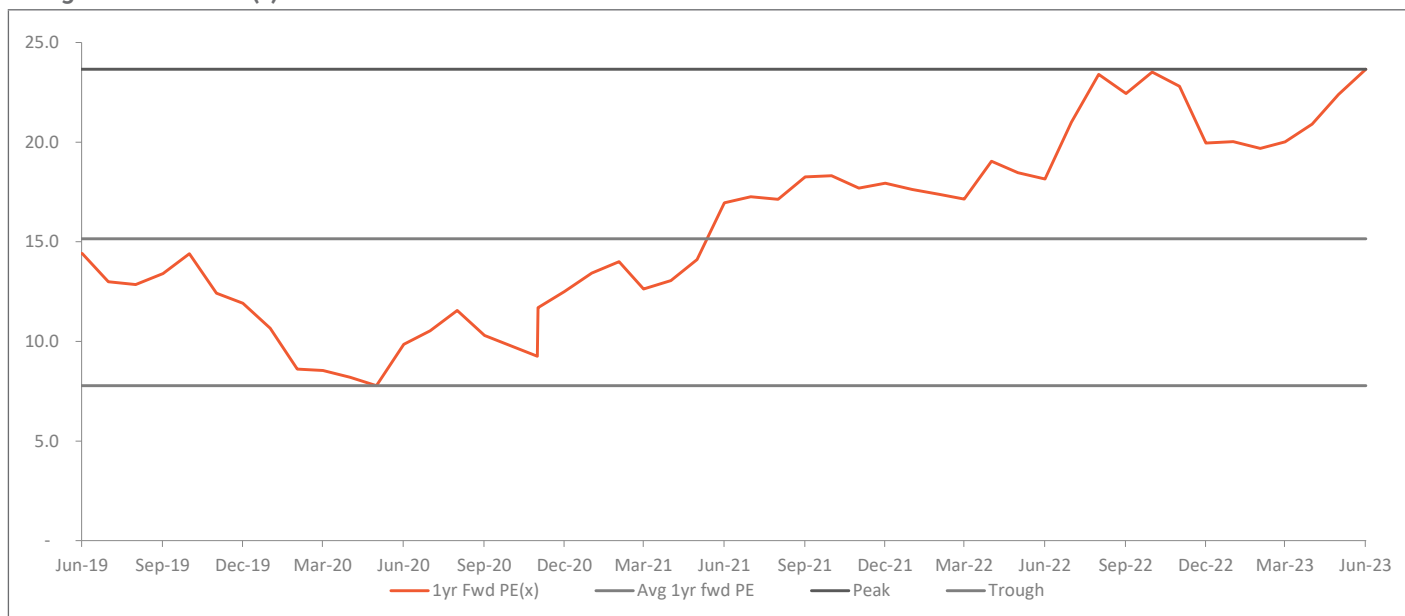
■ Company Outlook – Diversification and a strong order pipeline would boost growth

BEL has been continuously focusing on sustainable growth plans and has taken various initiatives such as i) Focusing on enhancing its R&D capability, ii) Enhancing manufacturing capabilities through timely modernisation and expansion of facilities, and iii) Entering into joint ventures in existing and emerging businesses to enhance business visibility. Long-term order pipeline includes high-value orders such as Medium Range Surface - To - Air Missile (MRSAM)- Rs. 20,000 crore, Quick Reaction Surface-to-Air Missile (QRSAM) – Rs. 20,000 crore. In addition, BEL has been focusing on exploring the export (primarily non-defence currently) potential of defence electronics products and systems, which bodes well for revenue diversification. The company targets 10-15% revenue contribution from exports (currently ~2%).

■ Valuation – Maintain Buy with a revised PT of Rs. 142

BEL has bagged Rs. 5,900 crore worth of orders in Q1FY24, which indicates the company is well on track to achieve its order guidance of Rs. 20,000 crore in FY24. Further, the company could exceed its guidance if large orders like QRSAM or MRSAM are awarded in FY24. Further, India is strengthening its defence ties with developed countries like the USA, which also presents export and several partnership opportunities to BEL. BEL has strong manufacturing and R&D base, a robust order book, healthy order prospects, diversifying revenue stream, and a healthy cash balance of ~Rs. 8,000 crore with improving return ratios. We retain a Buy on the stock with a revised price target (PT) of Rs. 142, valuing it on FY2025E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About the company

BEL is a PSU with strong manufacturing and R&D capabilities and robust cost-control measures. The company manufactures electronics, communication, and defence equipment and benefits from enhanced budgetary outlay for strengthening and modernising India's security.

Investment theme

The government's Make in India and AatmaNirbhar Bharat initiatives, along with rising spending for modernising defence equipment, will support earnings growth in the coming years, as BEL is one of the key players with strong research and manufacturing capabilities in the defence space in the country. A robust order book provides strong revenue and earnings visibility. BEL plays well in the defence sector because of its strong manufacturing and R&D base, good margin trajectory, cost efficiency, growing indigenisation, and strong balance sheet.

Key Risks

- ♦ Delayed order execution and slower pace of fresh orders can affect revenue growth.
- ♦ Higher raw-material prices and shortage of critical components such as semiconductors could affect execution and earnings going forward.

Additional Data

Key management personnel

Mr. Bhanu Prakash Srivastava	Executive Director-Chairperson-MD
Mr. Vinay Kumar Katyal	Executive Director
Mr. Damodar S Bhattad	Director (Finance) & Chief Financial Officer (CFO)

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nippon Life India Asset Management	4.25
2	Kotak Mahindra Asset Management Company	3.51
3	HDFC Asset Management Company Limited	3.01
4	Vanguard Group Incorporation	1.74
5	BlackRock Incorporation	1.60
6	FMR LLC	1.32
7	Canara Robeco Asset Management Company	1.25
8	DSP Investment Managers Private Limited	1.07
9	Mirae Asset Global Investments Company	1.04
10	ICICI Prudential Asset Management Company Limited	0.84

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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